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Executive Summary

The merger between the two largest beer companies in the world, AB InBev and SABMiller, is a strategic horizontal merger which is targeted at expanding the market share, lessening competition, and attaining economies of scale and scope. This study will assess the strategic fit of the merger, especially based on geographic complementarity and brand synergies. AB InBev was able to enjoy instant access to high-growth emerging markets, especially those in Africa, Asia and Latin America, where SABMiller was well established. It was also able to diversify its products through the merger, such as non-alcoholic drinks, to counter the shrinking sales of its beers in the mature markets. But the merger was not easy as it came with a burden of a massive debt of 120 billion, regulatory and cultural integration problems. Though the synergies that are realised as a result of the combination of supply chains and cross-promotion of brands were enormous, the financial risks and complexities that come with the integration of supply chains and products in the post-merger period are observed.

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Introduction

The merger of AB InBev with SABMiller is horizontal in the global brewing market, as two of the biggest beer companies in the world will form one joint market. This study examines the impact of the merger on market expansion, operating synergies and financial synergies. The main motivation behind the merger was the need to acquire more market share, achieve economies of scale and expand into new markets, particularly the emerging markets in Africa, Asia, and Latin America, where SABMiller was performing well. The purpose of this research is to examine the strategic compatibility of the companies, assess the possible synergies, and review the issues of debt, integration and competition in the market.

1) Type of Merger

The merger between AB InBev and SABMiller was a horizontal merger, considering that the two companies were working in the same business, the global brewing industry. Further, AB InBev also agreed to pay \$3 billion as a breakup fee if the deal is terminated after different proposals were presented (Figure 1) (Curtin, 2015). Both firms were among the biggest brewers in the world when the deal was struck. Such a merger is usually undertaken in an attempt to gain a larger market share, minimise competition, and have scale synergies (Gaughan, 2018).

After a Standoff, Clinking Glasses

SABMiller rejected several potential offers from Anheuser-Busch InBev as undervaluing the company, but then agreed to recommend a sweetened proposal.



Notes: The proposals are for the all-cash component of the deal. The deal includes a partial share alternative at a lower per-share value for 41% of shares. The first and second proposals weren't publicly known until Wednesday. £1=\$1.55

Sources: the companies (offers); WSJ Market Data Group (share price, as of 7:25 GMT)

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Figure 1: Different proposals presented to acquire SABMiller, retrieved from Chaudhuri, Raice and Mickle (2015)

As per Beer Marketer Insights, AB InBev had a volume of 20 per cent of beer worldwide even before the merger, and SABMiller had about 10 per cent. After buying Anheuser-Busch in 2008, AB InBev cut 1,400 positions, or around 6% of the company's workforce. It also put a Brazilian executive in charge of the firm and put in place cost-cutting measures, including zero-base budgeting, which means that every year, costs must be justified (Mickle, 2015). The merger, hence, brought together two of the leading players in the same value chain.

2) SABMiller is A Good Strategic Fit for AB InBev

SABMiller was really a good strategic match with AB InBev because the markets that the companies occupy, geographically, are complementary,

there is a range of brands that are complementary, and the operations can be complementary. As a strategic management issue, especially through the Resource-Based View (RBV), the merger was a straightforward possibility through which AB InBev could develop such valuable, rare, inimitable and non-substitutable resources that could support its competitive advantage in the global market (Lubis, 2022; Zahra, 2021).

Geographic Complementarity

Among the most important factors of strategic fit were the excellent market penetration of SABMiller in the emerging markets, mainly in Africa, Asia, and Latin America, whereby AB InBev did not enjoy a strong presence before the merger (Colley, 2024a; Colley, 2024b). To give a few examples, SABMiller had a presence in 37 African countries, which contributed approximately 30 per cent to their profits (Wexler, 2015). AB InBev, in its turn, occupied a minor position on the continent, consuming 0.6 per cent of the market of Africa, in comparison to SABMiller having 40 per cent (Esterl and Fairless, 2015; Walker et al., 2015). This acquisition gave AB InBev immediate exposure to such high-growth markets and reduced its concentration on markets that were not improving, such as the US and Brazil (Colcioni, 2022; Hoogers et al., 2023).

Brand- Product Portfolio Synergies:

The strength of AB InBev has been its premium global brands, such as Budweiser, Stella Artois and Corona. SABMiller, on the other hand, possessed an international variety of local and regional beers such as Castle Lager (Africa), Aguila (Colombia), and Carlton Draught (Australia). The merger also enabled the AB InBev company to integrate its premium products with the regional specialities of SABMiller to come up with an

extensive product line that has the potential of reaching out to a wide range of customers based in various regions (Dunne et al., 2023; Voltz, 2023).

Besides, SABMiller also had a sizeable non-alcoholic beverage operation, with 22 per cent of its business volume coming as a result of soft drinks product diversification, which AB InBev could not afford. This gave AB InBev new growth opportunities beyond the age-old beer market, which was particularly critical because the declining trend in beer sales in developed countries was still persisting.

Type Resource-Based View (RBV) Analysis:

The RBV theory rests on the idea that companies can attain and maintain competitive advantage through the acquisition and mobilisation of resources that are (Abdeen et al., 2025) shown in Table 1:

Table 1: RBV for SAB Miller acquisition by AB InBev

RBV Criterion	SABMiller's Contribution to AB InBev
Valuable Resources	Market leadership in the emerging markets (Africa, Asia, Latin America) SABMiller controlled 40 per cent of the African market compared to 0.6 per cent by AB InBev. The complementary brand range possessed by SABMiller, such as Castle Lager and Aguila, diversified the range offered by AB InBev and reached more customers. Brands of SABMiller also enhanced penetration in the market. SABMiller was strong in markets with high growth, and its distribution networks and brand equity were valuable (Nsomba, 2021).
Rare Resources	Made good distribution infrastructures in the emerging markets where competitors do not exist Longstanding ties with local distributors, governments and communities, particularly in Africa, worked to SABMiller. Such connections allow SABMiller to have effective operations of regional brands in various markets.
Inimitable Resources	Brand equity and local knowledge built up over decades The company had a well-instilled structure of operational practices and employee know-how that was difficult to imitate. SABMiller had a competitive advantage because it had strong connections with local stakeholders.
Non-Substitutable Resources	The human resource and cultural knowledge in green fields markets cannot be substituted by other resources as offered by SABMiller The non-alcoholic beverage business provided new avenues of growth to SABMiller, particularly in the fact that beer sales in the developed markets were stagnating. The non-alcoholic drinks of SABMiller offered an incomparable market prospect to AB InBev.

3) Reasons Behind AB InBev's Acquisition of SABMiller

The strategic motives behind the merger between AB InBev and SABMiller were multifactorial and explained by a horizontal merger was profits as shown in Figure 2. This acquisition was to expand on the market share in the international market to build synergy, as well as avoid the loss of the mature and saturated beer market.

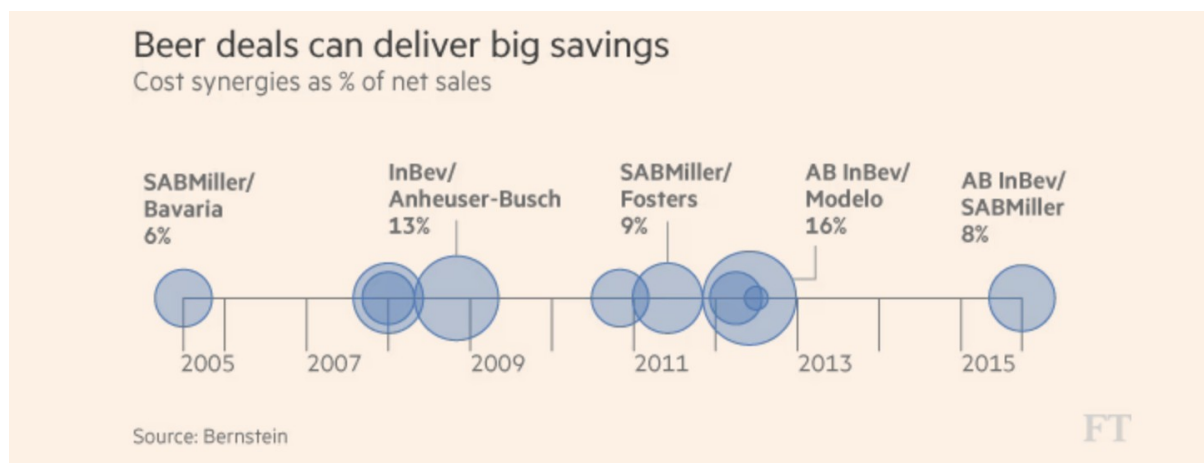


Figure 2: Savings of beer deals of AB InBev and SAB Miller, retrieved from Financial Times (2015)

1. Market expansion in the World Market:

Among the major ones was foraying into the fast-growing and underpenetrated markets, especially in Africa, Colombia and parts of Asia. The areas symbolised demographics and economic expansion that had not yet been used by AB InBev to the fullest. With the already established market share being acquired by SABMiller, AB InBev would already have access to consumers in the emerging market, whereby the loyalty of brands and distribution facilities has already been established.

2. Economies of scale and scope:

AB InBev has been credited with attaining cost leadership based on huge economies of scale. Through the assimilation of the SABMiller activities, it intended to:

- Cut expenses by merging production plants.
- Reach procurement efficiencies.
- Put processes in the back office and administrative functions on autopilot.

In addition, there would be the economies of scope due to the cross-promotion of products and brands in overlapping geographical areas.

3. Industry Consolidation:

The world market of beer market was becoming more and more concentrated. The reason behind this acquisition was that it was part of the long-term plan of AB InBev to lower competition and establish barriers to entry. The second-largest brewer SABMiller further enhanced the already

existing negotiation power with distributors and suppliers, since it now officially became the largest brewer in the world, not only at scale but also in reputation, discouraging any other brewers to expand operations, an effect that was further influenced by the merger of the second-largest brewer by volume with the largest merger of two of the largest brewing companies.

4. Excess Cash Deployment:

The transaction also indicated the utilisation of the excess funds to grow. As there were not many opportunities to achieve organic growth in its main markets, AB InBev decided to buy an acquisition that would allow it to expand in new growth directions, which would be consistent with the classical merger theory (Brealey et al., 2020).

4) Potential for Economies of Scale and Scope of the Potential Synergies.

The AB InBev-SABMiller merger presented huge economies of scale and scope with an opportunity to affect both the industry to decrease costs as well as increase revenue. This deal was inspired by the history of AB InBev gaining efficiencies out of the previous mergers-like when the firm purchased Anheuser-Busch at a cost of 52 billion. It is estimated that the enhanced bid will add a cost of cash to add an estimated three billion dollars to AB InBev. However, that is not much of a difference since the net debt is going to be nearly \$120 billion regardless of the deal (Davies, 2015). The most attractive attributes of economies of scale were especially evident with regard to the supply chain integration and production consolidation. The input costs of the current operations of SABMiller were supposed to decline due to the implementation of the global procurement practices by AB InBev. The financial risk was high since the net debt of the post-merger

stood at approximately 120 billion dollars, so scale-driven efficiency helped to rationalise the financial danger.

There were also economies of scope apparent. The soft drinks company of SABMiller, which contributed 22 per cent of its sales volume, widened the product portfolio of AB InBev beyond its traditional beer brands (Chaudhuri and Dalton, 2015)

Synergies were also beyond cost. SABMiller may use its local distribution networks to cross-sell its high-rated brands like Stella Artois and Budweiser through the distribution network of AB InBev. The sharing of knowledge was also beneficial: knowledge and experience SABMiller had built over decades in emerging markets (such as Africa and Latin America) and scale scale-driven model of AB InBev allowed transferring the best practice and having revenue synergies. The Porter's Generic Strategic model is shown in Table 2.

Table 2: Porter's generic strategic model.

Strategy	Description	Impact on AB InBev and SAB Miller Merger
Cost leadership	Focuses on gaining a competitive advantage by reducing operational costs, achieving economies of scale, and enhancing production efficiency.	• Economies of Scale: AB InBev cuts down its costs through the practice of production concentration and internationalised procurement. • Lower unit costs: Revision of operations by increasing the scope and standardising operations. • Supply Chain Integration: The supply chain of SABMiller will be utilised by AB InBev to reduce the cost of procurement and operations.
Differentiation	Focuses on offering unique products or services that justify higher prices, creating value through brand, features, or innovation	• Economies of Scope: The portfolio of drinks acquired by SABMiller will diversify the portfolio of AB InBev, enabling it to gain new customers. • Revenue Synergies: The distribution channels that have been developed by SABMiller are instrumental in assuring that AB InBev is able to cross-sell its premium brands, such as Budweiser and Stella Artois. • Product Diversification: A new source of growth is provided by the non-alcoholic beverage, which offers a profitable outlet in declining beer-consuming markets.

5) AB InBev Overpaid for Acquiring SABMiller

It is reasonable to say that AB InBev overpaid to buy SABMiller since the transaction was concluded at more than 30x and 2015 earnings of SABMiller, compared to an industry average of 13.1x EBITDA. The excessive premium was in part related to pressure on the company by shareholders who were given concessions, such as special concessions by major stakeholders such as the Santo Domingo family and Altria Group. The transaction increased the financial risk in a major way as the debt rose to \$120 billion, as far as AB InBev is concerned. According to analysts, it would take seven years to achieve SABMiller's cost of capital. Considering that there was not a lot that could be done in terms of additional cost savings and that the takeover was rather defensive, the financial risks exceeded short-term strategic gains.

6) Merger is a Success or Failure

The result of the merger between AB InBev and SABMiller can be deemed as partially successful, with strengths, weaknesses, opportunities and threats shown in Figure 3:

SABMiller had entrenched roots in high-growth markets in Africa and Latin America, which AB InBev could now tap into without delay. To illustrate, SABMiller was present in 37 African countries, and these are the markets that currently drive the growth of AB InBev (Wexler, 2015). The acquisition predetermined the additional portfolio of local brands and soft drinks, which comprised a fortress of the products that AB InBev possessed and which diversified its product capacity to address changes in consumer choices.

By 2020, the African market operations of SABMiller had become important sources of growth, which also points to the benefits of geographic

diversification over a long period (AB InBev Annual Report, 2020). The economic aspect of the merger, however, is not as easy as:

The purchase put AB InBev in a huge debt, limiting cash flow, limiting flexibility on M&A activity, as well as exposing the company to changes in interest rates. In order to comply with antitrust law, AB InBev was forced to sell off all of its assets, including MillerCoors within the U.S. and a section of its activities in China, thus watering down the intended flourishes of the acquisition (Chaudhuri, 2015). Between 2016 and 2020, the share price of AB InBev fell short of the S&P Global Consumer Staples Index, showing that investors are not satisfied with the financial results of the merger.

Strengths	Weakness	Opportunities	Threats
• An immediate access to the SABMiller high presence in the emerging markets, particularly Africa, Asia, and Latin America (Wexler, 2015). • Considerable savings due to the consolidation of production, the practice of international procurement (Chaudhuri & Dalton, 2015). • The merger forms the largest company of beer company in the world, which boosts market dominance and supplier/distributor power (Gaughan, 2018). • The distribution network that SABMiller has developed will allow AB InBev to reach hitherto unexploited markets and increase its presence (Wexler, 2015).	• The post merger debt of 120 billion dollars constrained the cash flow and flexibility (Davies, 2015). • AB InBev paid a premium of 30x EBITDA to acquire SABMiller, which was way above the industry average of 13.1x, and this caused a financial burden (Candra et al., 2021). • The difficulty of unifying operations, cultures and systems because of the size of the merger (Colcioni, 2022). • The antitrust issues compelled AB InBev to dispose of such major assets as MillerCoors and part of its operations in China (Chaudhuri, 2015). • Possible cultural and business variations in the two big companies (Colley, 2024a).	• Diversification into nonalcoholic drinks offers an expansion option outside of the shrinking beer industry (Chaudhuri & Dalton, 2015). • The distribution channels of SABMiller will assist AB InBev to increase the coverage of premium brands such as Stella Artois and Budweiser in the emerging markets (Esterl & Fairless, 2015). • Using the already established presence of SABMiller in the market to generate more revenue by cross-promoting and diversifying products (Wexler, 2015).	• In developed nations, the beer market is saturated, and as a result, the main sources of revenue of AB InBev stagnate (Voltz, 2023). • The size of the merger is big, which means that it will get attention from regulators, who may decide to force more asset divestitures or limitations on operations (Chaudhuri, 2015). • The excessive debt increases the risks of AB InBev to interest rate fluctuations and low financial flexibility (Brealey et al., 2020). • The presence of stiff competition among the local brewers in the emerging markets has led SABMiller has establish relationships and brand loyalty (Esterl & Fairless, 2015).

Figure 3: SWOT analysis of SAB Miller Acquisition

7) The Party benefited more from this Transaction

It was the shareholders of the target (SABMiller) who gained the greatest benefit:

- They were offered a huge premium (~50 per cent above the stock price before the offer).
- Altria and the Santo Domingo family have obtained tax-efficient partial-share transactions, where they had a long-term exposure to AB InBev (Davies, 2015).
- The transaction opened the exit and liquidity to the long-term investors.

On the contrary, the shareholders of AB InBev were exposed to:

- An excessive amount of debt, a huge amount of debt
- Extended value creation payback
- Long value creation payback
- Instantaneous weakening in returns and share price

This is consistent with the winner's curse tendencies in the high-premium acquisitions case, where the acquirer overpays, leading to a loss of post-merger shareholder value, and this is as reported by the merger theory proposed by Roll (1986) (Candra et al., 2021).

Conclusion

The merger between AB InBev and SABMiller is a combination of both success and difficulties. Although it has proved to be a more strategic move, such as geographical expansion to high-growth emerging markets, particularly in Africa and Latin America, the financial costs have been enormous. The level of the debt taken as part of the acquisition restricts the flexibility and cash flow of AB InBev, and the regulatory issues caused asset sales, which reduces the potential of the merger. Despite the synergies that have been produced by the merger and the new growth opportunities that

have been availed, especially by the non-alcoholic beverages, the long-term success of the merger will be determined by the effectiveness of the integration process and the utilisation of the new market opportunities by AB InBev.

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